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Get Yourself Ready.

Now that the Reserve Bank of India Bill has received the assent of His Excellency the Governor General on the 6th instant, it has become an Act and with this statutory formality three-fourths of the preliminaries of the incorporation and formation of the Reserve Bank of India are complete. Hereafter it only remains to arrange for the issue of the prospectus inviting the public to subscribe for its shares. Considering the fact that the objects with which the Reserve Bank is established and the advantages likely to be desired by its share-holders are all very well known to the public, the preparation of the prospectus is easy and simple, and in no case as difficult as that of any other new bank or company, and as such it should not take a long time In all probability we may expect the prospectus to be ready for publication by the first or second week of the next month and so it is but proper that we give our readers who may be desirous of taking up shares in the Reserve Bank a timely hint to be ready with the necessary funds for sending their applications at a moment's notice.

In this connection it may be of advantage to state hereunder the salient provisions of the Act relating to the share capital. number of shares and the scheme of allotment of the shares. The starting share capital of the Bank is now fixed at five crores of rupees, divided into five lakhs of shares of hundred rupees each. For purposes of the issue of the shares to the public, the country is divided into five divisions, as Bombay, Calcutta, Delhi, Madras and Rangoon, with a separate register of shareholders for each and the number of shares assigned to each register is as follows:

Bombay	...	1,40,000
Calcutta	...	1,45,000
Delhi	...	1,15,000
Madras	...	70,000
Rangoon	...	30,000

Out of these five lakhs of shares available, under section 4, sub section (8) 2,200 shares to the nominal value of Rs. 2,20,000 have to be reserved for allotment to the Government of India to be permanently held by them and for disposal at par to the Directors seeking to obtain the minimum share qualification. Taking for granted that each register reserves pro-rata the required number of shares to the Government of India, the following statement will easily illustrate the number of shares that should be reserved by each register and the balance available to the public for subscription.

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Register.	No. of shares assigned.	No. of shares to be reserved for Govt. of India.	No. of shares available to the public (Rs. 100 each)
Bombay	1,40,000	616	1,39,384
Calcutta	1,45,000	638	1,44,362
Delhi	1,15,000	506	1,14,494
Madras	70,000	308	69,692
Rangoon	30,000	132	29,868
	5,00,000	2,200	4,97,800

In alloting the shares the Central Board is required in the first instance to allot 5 shares to each qualified applicant who has applied for five or more shares, and if the number of such applicants is greater than one fifth of the total number of shares assigned to the register, it is required to determine by lot the applicants to whom the shares are to be alloted. If the number of such applicants is less than one fifth of the number of shares assigned to the register, the Central Board shall allot the remaining shares firstly up to the limit of one half of such remaining shares to those applicants who have applied for less than 5 shares and thereafter as to the balance to the various applicants in such manner as it may deem fair and equitable, having regard to the desirability of distributing the shares and the voting rights attached to them as widely as possible.

It will be seen from the above that a share-holder to have voting right should possess a minimum of five shares and as such it is essential that an intending applicant for shares should apply for at least five shares so that he may command a vote. Speaking of the Madras register, the number of shares available to the public is only 69,692 and if each applicant applies for five shares, the needs of only 13,938 applicants could be complied with. This small number should not suffice even for the requirements of the individual applicants, but the wealthy bankers, merchants, Zemindars and Rulers of Native States are also going to compete with them. So there is every probability that the number of shares applied for is even one-hundred times greater than the number available for issue.

In this connection we think a word of caution to the Central Board who have to allot the shares to the public in an impartial manner calculated to command the confidence of the public will not be improper. It should be their aim to allot five shares to each applicant so that he may command the right of vote and not to assign blocks of shares, in hundreds, to the merchants and bankers to the detriment of the individual applicants and thereby restricting the number of votes For example the country's interests will be better served by alloting at the rate of 5 shares to 20 applicants, instead of alloting 100 shares to a single banker or merchant, for in the latter case the banker or merchant can command only a maximum of 10 votes whereas the former 20 applicants can each exercise one vote, thereby having at their disposal 20 votes It is to remedy this possibility, the committee consisting of two elected members of the Assembly and one elected member of the Council of State, elected by the non-official members of the respective Houses, to be associated with the Central Board, should direct their attention With the restriction of one-fifth of the total number of shares to single applicants who have applied for five or more shares and the provision for the use of the ballot box for final decision we think the requirements of the small applicants

cannot be fully met with and the distribution of shares to the people at large is not likely to be effective. To secure this end, the committee of both the Houses together with the Central Board should exercise with open mind the very wide discretionary powers conferred upon them in the allotment of the remaining two-fifths of the total shares so that no individual applicant for five or any lesser number of shares has the misfortune of receiving a 'letter of regret'

As regards the importance of subscribing for the shares of the Reserve Bank we think we need not say much. Therefore, it is the duty of every son and daughter of India to see that the opportunity to subscribe for the Reserve Bank shares, which in course of time should command fancy prices in the open market, is not lost Every one desirous of taking up shares should be keenly awaiting the date on which the prospectus inviting the public to subscribe for the shares of the Reserve Bank is issued so that the application, with the necessary application money may be sent so as to reach the authorities authorised to receive applications, precisely at the hour when the subscription list is opened, as in all probability it will be closed in a few minutes after it is opened

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Businessmen Taxed Again.

Businessmen in India are already groaning under a heavy taxation and as if the existing burden is insufficient for them, they are taxed still further in that they are made to pay an increased price for the use of the post office in sending their book packets from 1st April 1934 From that day the postage on a book packet is to be 9 pies for every five tolas instead of the existing 6 pies rate As a reason for raising the book packet rate by 50%, the Hon. Sir George Schuster says "The book packet method of transmission is undoubtedly being abused and a change is urgently necessary to stop the diversion, with consequent loss of revenue that is occuring of post card traffic to the book packet category". The reason quoted above is far from the truth and we entirely differ from him The main reason for such a diversion is because the present day merchants and the public are now so thorough with the postal rules that they know full well that printed papers can be transmitted by post as book packets at cheap rates. Most of the ordinary communications have now been standardized and are printed at enormous cost. with a view to minimising the clerical labour and obtaining the benefit of cheap postage Initial heavy printing charges are incurred with the hope of recouping them in the long run through saving in postage. The same system is adopted in all Western countries and there is no statement like the above from any Postmaster General or Finance Member or Chancellor of Exchequer.

According to the new rules there is a great disparity in the postal rates as those that prevail both in India and England An English merchant can post a book packet weighing 5 tolas addressed to his customer in India at a postage of half a penny, which works out at 5-1/3 pies at the 18 pence ratio, but an Indian merchant has to spend nine pies for posting a book packet of the same weight, even within the borders of his country. See how glaring the disparity is! Again in the postage on letters the disparity is striking The postage on a letter from England to India is 1½d. i. e. 16 pies at the current rate of exchange but that on a letter in the reverse direction is 30 pies 87½% greater. Naturally these heavy postage

rates tell upon the merchants and others in the country very heavily. Instead of granting some reduction in postal rates for which there is a countrywide clamour, the recent proposal of increasing the book packet rate is nothing but an ill advised measure Further the reduction of postage granted on a letter weighing half a tola from 1¼ annas to 1 anna is of no comparative advantage. A decent envelope and a letter paper commonly used by business men should weigh more than half a tola. There would be some real advantage in this reduction if the postage is fixed at one anna for a letter weighing ***not more than one tola.*** We think the above views of the business community, who make use of the post very largely will be effectively brought to the notice of the Finance Member by the Chambers of Commerce and other public bodies. so that he may not give effect to the new proposals under the above heads. At any rate we wish the book packet rate should be left unaltered and the minimum weight of a letter for one anna postage should be ***raised to one tola.*** We hope the Finance Member, posted as he is with reasons as quoted above, will certainly change his views and earn the gratitude of the business men and the public by complying with their requests.

New Revenue Stamps.

We invite the attention of our readers to a recent press communique, No. 53 of the Government of Madras, reproduced hereunder in full. It will be seen from it that on and from 1st April 1934, affixing postage stamps of the value of half anna, one anna, two annas and four annas to instruments which are required to be stamped under the Indian Stamp Act of 1899 is declared to be not in conformity with the law. New revenue stamps are being introduced from that date and they alone should be used. The new revenue stamps will be available for sale to the public from 1—4—34 in ***all*** post offices, Government Treasuries and with all licensed stamp vendors.

Press Communique.

Dated Fort St. George, the 8th March 1934.

No. 53:—

Certain denominations of adhesive stamps called 'unified' stamps of the values of half anna, one anna, two annas and four annas superscribed 'India Postage and Revenue' are at present used both for postage and for being affixed to instruments which are required to be stamped with that class of stamps under the Indian Stamp Act II of 1899 as subsequently amended. The Government of India have decided to abolish these 'unified' stamps from 1st April 1934 and to introduce from the same date separate kinds of adhesive stamps of the value of half anna, one anna, two annas and four annas for being affixed to instruments such as receipts, promissory notes, etc. These new revenue stamps will be of the same size as the postage stamps of the same values but different in design. They differ from postage stamps in that they have a star in the middle instead of the King's head; the floral work and the method adopted for denoting the value of the stamps in figures and words are also different from those on postage stamps. The public are hereby informed that from 1st April 1934 only these new revenue stamps should be used for instruments such as receipts, promissory notes. etc, that require to be stamped with this class of adhesive stamps under the Indian Stamp Act II of 1899 as subsequently amended. Postage stamps of the values of half anna, one anna, two annas and four annas should not be used for being affixed to such instruments from 1st April 1934. Instruments for which postage stamps are used from 1st April 1934 will be invalid. The new revenue stamps will be available for sale from 1st April 1934 in all Post Offices including Sub and Branch Post Offices, in all Government treasuries and with all licensed stamp vendors in the Madras Presidency.

The British Co-operative Movement

BY

J. S. PONNIAH, M. A, Dip. (Econ.),
American College, Madura.

The most distinctive contribution of the British working classes to industrial democracy is the organisation of the co-operative movement. Together with the trade union, it is the most conspicuous example of English self-help. Dr. Baerneither describes the Trade Union and the co-operative movement as the "twin children of the same spirit".

In one sense all business is a form of co-operation. But "the co-operation of the co-operative movement" is a voluntary organisation originating among those who are economically weak and conducted on business lines. Co-operation is thus essentially different from a Trade Union or Friendly Society, and different also from other business concerns conducted for profit like the Joint Stock Company.

Friendly Societies.

The earliest of voluntary associations among working men in the new era of the Industrial Revolution were the mutual benefit clubs, trade clubs, Friendly Societies and the less responsible secret societies. "All too many of them were little more than societies of good fellowship, with burial club, annual feast and procession to church, especially for the funeral of a member". The legislature that was hostile to trade unions, curiously enough, was not opposed to these friendly societies but gave them legal recognition by the Act of 1793. In the year 1801 there were 700 of them with a total membership of 65,000. In 1829 was appointed the first Registrar of Friendly Societies. Since then the activities of the organisation have been in the line of promoting temperance and thrift among the members, the success having been conspicuous as judged by the following figures.

Friendly Societies	No. of members	Total Funds.
Orders and their Branches	3·1 m	40.6 m
Sickness Benefit Societies	1·0 m	18·0 m
Deposit Societies	1·0 m	12·2 m

The Co-operative Store.

More spectacular in success and of world-wide influence, however, has been the organisation of the co-operative store by the twenty-eight flannel weavers at Rochdale in 1844 It was by no means the first co-operative store or the oldest store surviving to modern times. Nor was it even the first society to adopt the epoch making device of distributing dividends on purchases. But Rochdale Pioneers were the first to make an astonishing success of the store by adopting all the five essential principles of (1) sale to members only, (2) sale for cash (3) and at market prices, (4) the distribution of dividend on purchases (not on share capital) (5) and democratic management. The ultimate aim of the Pioneers was not the mere vend-

ing of goods amongst themselves to escape the clutches of the unscrupulous middlemen or the runners of truck-shops but the setting up of manufactures and the founding of a co-operative commonwealth. This has not been realized yet. But the movement, in reaching its present size, has achieved a remarkable success without intending. As Webb puts it, "the present gigantic organisation is a mere expansion from the Rochdale Store".

Robert Owen, the enlightened mill-owner of New Lanark, was the first to originate the idea of the formation of "Villages of Unity and Co-operation", each consisting of (say) a thousand persons, with a thousand acres of land for agricultural and manufacturing purposes, living in blocks of houses built at rectangles (hence, nicknamed "rectangular paradises"). He was the first to fix "a fair wage" at 6d. an hour and to make that amount of labour the basis of calculation for his fantastic "labour currency notes" and to advocate reduction of hours of work in the textile mills and secure the Factory Act of 1819. But he was not the founder of the co-operative store. He is the "Father of Co-operation" only in a spiritual sense. He was a radiator of co-operative ideas. His missionaries carried the new gospel from place to place. But the distinguished lawyers, who were the disciples of the Christian Socialists, Maurice and Kingsley, secured for the co-operative societies, the Act of 1852 which gave them a legal personality, the Act of 1862 which conferred the boon of limited liability and the Acts of 1867 and 1876 which were necessary to federal expansion. Co-operative societies are known to the law as industrial and Provident Societies and are governed now by the Act of 1893" (C. R. Fay).

THE GROWTH OF THE SOCIETIES.

The early success of the movement in Britain was due to the large aggregation of factory workers in industrial centres, the wide range of commodities required by the consumers, the early development of mannfacturing activities (flour mill, bakery, boot and shoe, furniture and drapery) and the long traditions of association, organisation and character connected with the guilds. Not that there were no difficulties to encounter; in fact there were enough of them, as in all countries: "the struggle to escape from indebtedness to local traders and the temptation to slip back to easy credit in bad times; the inability of amateur managers to handle the store as it grew; the dishonesty of bad managers who had been imported without care and the hostility of middleman" (C. R. Fay). But as has been noticed above, the workers were numerous and stood firm.

The textile and the mining areas were easily co-operatised. But even there, Glasgow, Birmingham, Liverpool and Manchester did not establish stores till very late. "The working man of London, the first to discuss co-operation was the last to practise it. The heart of London was barely touched by it in 1914... In the East End, the large Jewish population is an adverse factor, for the Jews love individual trading and give their custom to the

own race. The Army and the Civil Service Stores are co-operative only in name" (C. R. Fay). The middle classes, the agriculturists and the class of very poor living on odds and ends of food have not patronised the co-operative stores. In these striking instances are demonstrated the causes that point to the scanty success that the store movement promises in this country.

THE WHOLE SALE SOCIETY (C. W. S.)

The astonishing success of the co-operative store in England and Scotland can be gauged by the early organisation of the co-operative wholesale society within 20 years after the foundation of the Rochdale store. At first an attempt was made in 1850 to graft a wholesale department to the Rochdale society, which, however, failed owing to the jealousy of the other stores. But after a series of conferences between 120 stores in the three districts of Lancashire, Cheshire and Yorkshire, a separate wholesale society was opened at Manchester in 1864. Branches were opened in all the important centres and manufacturing activitses commenced with biscuit in 1872.

Since then the history of the Wholesale has been one of remarkable expansion. In addition to its new manufacturing ventures in soap, cloth, drugs, furniture, boot and shoe etc., it has embarked on bulk importation of foodstuffs and raw materials from abroad and the running of her own steamers. It owns and operates coal mines and dairy farms in England, tea-estates in India and Ceylon, oil and cocoa yielding properties in West Africa and wheat farms in Canada. In 1925 the Share and Loan Capital of the retail societies and the Wholesale Societies of Great Britain and North Ireland amounted to £115 m. The retail trade totalled £200m. "Over 1/3 of the families of Great Britain are members of the store and from them they have obtained about ⅓ of their foodstuffs and 1/10 of all other household purchases" (C. R. Fay). The educational benefits of the societies and the co operative Educational Fellowship cannot be computed in figures. Since 1900 the women have come to the front through the establishment of the Women's Co-operative Guild and have exerted much influence in the wages problem and in municipal welfare work. The huge army of co-operative employees, over 200,000 in 1925, have been given minimum wages. In 1926 five members of the co-operative organisation were represented in Parliament and worked with the Labour Party. "In the co-operative Movement the nation possesses an engine, potent and reliable, as well for the maintenance of social peace as for the striking of a just bargain with the continents which possess the foodstuffs and raw materials of the 20th century" (C. R. Fay).

THE C. W. S. BANK.

Of the two other important subsidiary activities of the C. W. S, its Bank was the first to come into existence in 1871 to provide banking facilities for the member societies. It is primarily a savings bank and had in 1925, 20,000 current and 25,000 deposit accounts, the total assets having risen from £2 m in 1900 to £31 m in 1925. In recent years the Bank has handled the

funds of Trade Unions and Friendly Societies and has been financing overseas trade with Russia, and providing credit facilities to the Canadian and Australian wheat pools. But the Bank is not a clearing banker; the Westminister Bank acts as its agent.

CO-OPERATIVE INSURANCE.

The second great activity of the co-operative movement is its insurance business. The State was the first agency to begin life insurance. In 1692 the Government, as a means of raising money, sold life annuities, giving for £ 100 a life annuity of £14 without distinction of age. In 1789 the method was repeated but distinguishing ages in granting annuities. In both the transactions, it lost heavily. Since then, actuarial science was developed by Joshua Milne and the Equitable Society, and life insurance has "permeated every class and almost every contingency to which it is applicable."

In 1911 the state inaugurated the National Health Insurance Movement. The C. W. S. immediately seized the opportunity by opening a department of social insurance in 1912. But its life business was begun as early as 1867 and converted on the mutual basis in 1886. In 1908 the entire business was transferred to a separate organisation called the Co-operative Insurance Society, (C. I. S) and in 1915 "the Society was taken over by the English and the Scottish Wholesale Societies as a joint property". The assets of the C. I. S. amounted to £6.1 m in 1925. It had 2,000 full time agents in 1926. There are large branch offices in provincial centres and 168 district offices in the smaller towns.

"The C. I. S. undertakes two types of insurance, termed 'Group' Life and 'Collective' Life. Group Life Insurance is given to members of clubs, trade unions, guilds and bodies of employees; and entitles the beneficiary to a fixed sum on death.... Collective Life Insurance is a device for the simultaneous encouragement of store purchase and insurance....A single policy is taken out by the retail society, which insures the lives of individual purchasing members. In the most usual form the sum insured is 5sh. in the pound on the purchases of the last year with a limit of £40. Expenses of collection are limited to 3% of the premiums; and this is possible because the payment can be deducted from credits standing to the member's account in respect of purchases" (C. R. Fay).

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The Gold Standard.

BY

PROF. J. H. JONES.

(*Continued from page 51*)

IV

In all these respects the post-war world has differed from the pre-war world. Moreover, it seems to me that it is in precisely these differences that we find the real explanation of the failure of the gold standard, and that before we can hope to establish any international standard that will stand the test of time, it will be necessary to restore those conditions which made the pre-war gold standard not merely workable but also highly successful.

In the first place, the post-war gold standard was not of slow growth. Most of the countries that had abandoned gold under the pressure of war rushed back within the short space of about four years, and without considering with sufficient care the changes that had occurred in the underlying economic conditions. The result was that in some cases the rates of exchange were fixed too high and in other cases too low. I may refer briefly to the two outstanding examples—Great Britain and France. In 1925 we returned to the gold standard, and in doing so gave the pound the same gold value as it possessed before the war, that is to say, we restored the pre-war dollar rate of four dollars eighty-six cents to the pound. It was felt by many critics that such a value was too high in relation to the relative wholesale price levels of Great Britain and the United States of America. For several months before we returned to gold the dollar value of sterling had been rising. as the result of a transfer of funds to this country, without any change in the underlying economic conditions. Our price level, it was said, was appropriate to the dollar rate that prevailed before such transfer took place, so that in restoring gold at the pre-war parity the Government over valued our currency, the extent of over-valuation being estimated roughly at 10 per cent. It was therefore necessary to reduce our price level by 10 per cent. in order to be able to supply international goods at the international price level.

It seems to me that that criticism was inadequate. After the boom of 1920 we suffered a period of severe depression, during which wage rates in the industries supplying international goods (that is to say, the unsheltered industries) were reduced to an extent far exceeding the reductions that were made in the rates of wages prevailing in sheltered industries. In spite of these reductions the return upon capital invested in the unsheltered industries fell below the normal rate obtainable in the sheltered industries. Thus we were already suffering from an internal industrial disequilibrium; the normal distribution of particular wages to which I referred in the second section had been seriously disturbed. Although the wholesale price level for international goods was made, say 10 per cent. too high by the return

to gold, it represented a price level based upon an unduly low wage average in the industries concerned and an unduly low average return upon the capital invested in such industries. For that reason I believe that the degree of over-valuation was seriously underestimated by the majority of those who objected to the conditions under which we returned to the gold standard. The new standard imposed two tasks upon this country, the first being to reduce by 10 per cent. the price average or price level of the products of the unsheltered industries, the second being to make this new level represent a normal distribution of wages, costs, prices and profits throughout the whole of British industry. Even if there had been no other factor in the situation it is clear that an almost impossible task had been imposed upon the nation. But a further difficulty arose, after 1925, in consequence of a fairly steady fall in the world price level itself. In spite of the reductions in wage rates in the years that followed the return to gold, I do not believe that we succeeded in doing more than keep pace with the world price level. We had failed in the double task that had been set by the restoration of the gold standard.

The over-valuation of the pound inevitably produced a depressing effect upon British industry. It acted as a veiled tax upon exports and a veiled bounty upon imports, with the result that our export surplus was considerably less than would otherwise have been the case. At the same time the world was in need of capital and the tradition of London as a centre of foreign investment led to an attempt to meet this world demand. British capital was invested abroad to an extent exceeding the available export surplus, but this result was hidden by the fact that during the same period other countries sent their liquid capital to London in search of security. I shall return to that point presently; at the present stage I wish to stress the fact that, if such funds had not been imported to this country, the underlying weakness of our position would have been revealed earlier. It would have been necessary to maintain even higher discount rates than those which prevailed and to pursue a policy of more severe deflation. The depression in trade would have been even greater than actually proved to be the case. This danger was averted by the importation of funds from other countries, although such importation created a danger of another character which will be presently considered.

The case of France differed materially from our own case. When, after a period during which the value of the franc was stabilised, the French Government restored the gold standard, the franc was given a value of approximately one fifth the pre-war value in terms of gold. But the wage, cost and price levels in that country were such as to suggest a value far higher than that actually given to the franc. The result was that while in Great Britain the gold wage level was about 75 per cent. above the pre-war level, in France it was even below the pre-war level and even at the present time seems to be little if any above the pre-war level. It is precisely for this reason that the French at the present time are able to contemplate

with equanimity the prospect of a return to prosperity without any rise in the price level of that country. Further, the under-valuation of the French franc acted as a veiled bounty upon all exports and a veiled tax upon all imports. The temporary effect was to increase the export surplus (which was further increased by the receipt of Reparation payments from Germany) and to enable the French to amass balances which were left within call in other countries. The funds that accumulated in this country were largely French funds.

In the second place, as we have already seen, a large proportion of the savings of the people of different countries, instead of being invested in long-term securities, were held within call. Thus a vast amount of capital (estimated at two thousand million pounds), which should, and normally would, have been invested in industrial and other long-term securities, was held in liquid form and was moved about in search of security—security which included rapid realisability and was of more importance than a substantial difference in the rate of interest. That confidence which is generated by peace and normal economic development was lacking; the risk factor was over-valued. One result was that industries became heavily burdened with fixed-interest and short-term debts. In this connection it is important for the future to observe that the distinction between investment capital and what I have called liquid capital has lost much of its importance. The war has resulted in a large increase in securities (mainly issued by governments) which can be realised upon an international market with very little delay. These securities are now held to a greater extent than in the past by people who wish to retain their capital within call. They are therefore far more susceptible to sudden changes in demand and immediately available supply, and their existence on such a large scale has added to the instability of the post-war economic world.

In the third place, a change of the first importance has taken place in the financial relationships of nations without a corresponding change in their industrial structures. The United States of America provides the outstanding but by no means the only example of such change. Immediately before the war that country, although a heavy debtor, had ceased or almost ceased to be, on balance, a borrower. Her industrial structure was appropriate to that state of affairs. She possessed a large export surplus representing interest upon, and to some extent the repayment of, the accumulated loans of the past. The war enabled her not merely to pay off her debts but also to become an important creditor state. Her industrial structure remained practically the same as before; the interest element was transferred from one side to the other side of her account with the rest of the world. Not only did she possess an export surplus in respect of commodities and personal services but that surplus was now augmented (where once it was offset) by interest payments. She was like Mr. Manhattan of comic-opera fame, "all dressed up and no place to go." One factor in the situation is the amount owing to America in respect of so-called war-debts.

but from her point of view it is not an important factor. The much-discussed transfer problem is as relevant to and important for America in the case of other forms of indebtedness as in that of the debts of other governments. What is peculiar to the so-called war debts is the fact that they represent a contract between two governments, but this is of no international economic significance.

The failure to fit the industrial structure of the world to the new financial relationships between nations constituted one of the real difficulties in operating the post-war standard. I have already referred to the fact that, before the war, gold moved from one country to another in response to economic influences and that such movement produced its effect upon monetary policy and relative price levels. Since the war the changed financial relationships have caused not merely a large scale movement of gold but also a concentration of gold in those countries in which the change in financial relationships, with the given industrial structure, had not been fully offset by a policy of foreign investment. Thus France and America have jointly amassed a large proportion of the total world supply. But they have not allowed that supply to produce its pre-war effects. About 10 years ago Mr. McKenna rightly pointed out that America was on a dollar standard, not the gold standard. It is, I believe, literally true to say that at no time since 1920 has the United States been on the gold standard in the full technical sense of the words. It is equally true to say that France, while legally on the gold standard since 1928, has never accepted the implications of that standard. The reason for the failure of these two countries to employ the gold standard in the full sense of the words is to be found in their unwillingness either to adapt their industrial structures to the new financial relationship or to embark upon such a policy of foreign investment as would enable them to maintain the existing industrial structure.

Again, the credit system of the world has been completely disorganised. The change in the relative financial strengths of Great Britain, America and other countries has tended to reduce the pre-eminence of London as the financial centre of the world; the power of the City has been challenged by New York and Paris. But that is not the only change that has occurred. I have already referred to the existence of a large mass of liquid capital that would normally have been absorbed by industry in the form of long term investments. This liquid capital has not been employed by the Central Banks as a stabilising factor; on the contrary, it has proved to be a disturbing factor. Before the war the Bank of England, as the centre or controller of international credit, employed such credit in the service of distressed countries and thereby maintained financial stability. Since the war it has not been able to perform this function with the same effect, while other countries that were able to render assistance could not be relied upon. When the credit of any country was threatened, foreigners withdrew their funds in search of security. When, in 1931, we needed the type of assistance that

we were accustomed to render to other countries, the latter deserted us like rats deserting a sinking ship A large mass of liquid capital moved about the world leaving crisis in its train and creating embarrassment to the countries that it sought, always hunting for security without ever being sure of finding it. The most recent victim of the damage wrought by this movement is the United States of America.

V

In the fourth section of my paper I have tried to indicate those differences between the pre-war and the post-war gold standards which accounted for the success of the former and the failure of the latter. The question arises whether, under present conditions, it is worth while either to restore the gold standard or to establish any other form of international metallic standard. It is known to all economists that the difficulties of working the post-war gold standard were increased by technical defects in banking organisation, particularly in the United States of America and in France. A discussion of these defects would not be possible in this paper; I refer to them merely to indicate that I am aware of their existence. But I believe, and I therefore assume, that if the more fundamental difficulties to which I have referred were overcome it would be possible to solve purely technical problems.

The essential feature of the gold standard is that it maintains a fixed rate of exchange, establishes an international price system in the sense of a common measure of value, and controls the internal or domestic supply of currency and therefore the domestic level of prices. It seems to me that if we are to return to the gold standard it must be a standard that retains this feature. Before the war a movement of gold from one country to another automatically reacted upon the relative supplies of money in the countries affected. It has been suggested by the Gold Delegation appointed by the Economic Section of the League of Nations that in future the various countries should maintain free reserves of gold. The gold supply of a country should be divided into two parts, the first being the legal reserve against currency, the second being the surplus available for export. The purpose of the scheme is to secure that an export of gold from or an import of gold into the reserve should not react upon the currency policy of the country concerned.

It seems to me that this proposal would destroy the vital element in the gold standard. In recent years we have seen how free reserve are actually employed in practice. In America they were placed on the most inaccessible shelves of the vaults of the Central Banks. In many of the smaller countries they were virtually added to the legal reserves. They were exported with extreme reluctance and the loss of gold even from those reserves reacted upon the discount and currency policies of the losers. Further, it is clear that if all countries maintained free reserves, a considerable proportion of the total reserve of gold in the world would be rendered ineffective as a foundation for currency, with the result that the gold price level would be lower than under the alternative system. But the real argument

against the proposed system is that a movement of gold would not be producing the effect upon internal policy that such a movement ought to produce under normal conditions. At best we should be using the cumbrous method of moving actual gold instead of the pre-war method of moving liquid capital or providing credit; at the worst it would delay a domestic adjustment so long as to make such adjustment greater and more difficult and thus endanger the standard itself. For these reasons it seems to me that the proposal does not constitute an improvement upon the pre-war gold standard. The same reasons lead me to believe that the suggested compromise of establishing and maintaining a wide margin between the buying and selling prices of gold would destroy what is most valuable in the gold standard.

If we ignore other metallic systems it seems to me that the real issue lies between the gold standard, rigorously interpreted, and the maintenance of national currencies which are not linked together by being linked to gold any other common measure. When we abandoned the gold standard the alternative achieved considerable popularity in this country, but all recent experience has shown that, during a period of currency disturbance, it tends to increase rather than reduce our difficulties. My objection to the system, however, is due not to the fact that it has created or intensified difficulties under present conditions, but to the fact that it would create difficulties of the present type even though it were introduced under the best possible conditions. The system has been advocated on the ground that it would enable us or any other nation to pursue a currency policy that would maintain a stable price level. For reasons which I cannot give in this paper I believe that precisely that sort of stability which they seek is more likely to be achieved under the gold standard than under a system in which such stability is the immediate object of national policy. But it seems to me that a wider and deeper issue than even price stability is involved in the discussion of the two alternative monetary systems. The national currency system is but one aspect of economic nationalism or economic isolation, of which tariffs is another. A national system of currency is intelligible if not defensible for a nation which isolates itself from the family of nations. It is not, however, consistent with a policy of internationalism in other departments of economic activity. The gold standard stands for internationalism in economic affairs; it is a condition of free development of trade between nations. Nor should it be forgotten that, if most countries were on the gold standard, secular changes in the value of gold would be relatively small. Post-war changes in the value of gold has been due not to the gold standard but to the failure of a number of countries to operate that standard.

Without pausing to consider the case for bimetallism, I venture to express the belief that the restoration of the gold standard is necessary to the progress of the world in that future which is worth considering. I am content to leave the twenty-first century to our great-grandchildren. I do not, how-

ever, suggest that the gold standard should be immediately restored; on the contary, I fear that political considerations will drive us back to that standard before the essential preliminaries have been properly considered. In the first place, it would be folly on our part to return to gold until we knew precisely the rate of exchange that would enable international trade to be distributed in the manner determined by real costs of production. The new rates should be determined by purchasing power parities. We are not yet agreed, however, upon the precise meaning of purchasing power parity, neither do we possess the information that would enable us to estimate purchasing power parity, howsoever defined. Again, we should not return to gold until the price averages of different countries, expressed in their respective currencies, have reached those heights which are regarded as satisfactory; for it is clear that subsequent changes must be international rather than purely domestic in character. Further, we should not restore the gold standard until individual countries are prepared to pursue investment policies that are appropriate to the remaining parts of their economic structures. It is too much to hope that the great mass of liquid capital which now readily—too readily—flows from one country to another will quickly be invested in long-term securities and thereby cease to be a danger to the financial stability of a number of countries, but it should be easy to form an international exchange stabilisation fund under the control of an appropriate body which, in effect, would perform the pre-war international function of the Bank of England. Such a body would direct the flow of funds according to the needs of individual countries, not, as at present, in the opposite direction.

A word should be added on the question of tariffs. Before the war the tariff system of each country was determined by long-term considerations. During the last few years all countries (our own included) have found refuge in the doctrines of the mercantilists of earlier days. Tariffs have been used not to direct the development of industry but to direct the immediate flow of trade. An adverse balance of trade is no longer regarded as an incident of economic growth but as a calamity to be avoided at all costs. An established system of protection is not inconsistent with the operation of the gold standard, but frequent tariff manipulation to meet fluctuating trade balances is bound to render any international currency standard impossible. It is too much to hope that the world will abandon tariffs as a measure of protection, but it will be difficult to maintain the gold standard unless the countries of the world are prepared to abandon the system of *ad hoc* trade restrictions to overcome occasional deficits on current accounts. I do not believe, however, that I am too optimistic in stating that this difficulty would quickly disappear. The new practice of adjusting tariffs to failures to balance payments is largely the product of the failure of our credit system. If liquid capital had gone to the rescue of, instead of running away from, countries with adverse balances the need for dealing with the situation in another way would not have arisen. I therfore believe

that if we could solve the problem of controlling the flow of credit, either through the creation of an international exchange stablisation fund, or in some other way, the difficulties created by the new restrictions upon trade would also be solved.

We are frequently told that a return to the gold standard is impossible so long as the world supply of gold is so largely concentrated in two countries. It is no doubt true that the present distribution of gold presents a serious difficulty, but I do not regard it is an insuperable difficulty. The present distribution of gold is the result of those post-war influences to which I have already referred. If we could restore those conditions which are essential to the maintenance of the gold standard it is not unlikely that a redistribution of gold according to apparent need would be accepted. Gold is only preferred to an earning asset so long as the earnings of the latter do not exceed the money estimate of the risk involved. In the last resort, however, the international price level in terms of gold matters less than the domestic price levels expressed in local currencies, so that the difficulty created by an unequal distribution of gold could be overcome by giving an appropriate gold value to paper currency and maintaining a relatively low legal reserve. Moreover, if domestic price levels, expressed in local currencies, are sufficiently high, the burden of fixed debts necessitating a flow of payments from one country to another would not be so heavy as to endanger the gold standard. A recent judgment in this country, and still more recent pronouncements in the United States, have shown that debts contracted in gold are no longer payable in the gold value expressed in the bonds. A foreign debt payable "in sterling in gold" in this country can be paid in sterling; a gold bond payable in gold dollars can be paid in dollars. This decision has produced a profound effect upon the significance of the gold price level in the world and, therefore, upon the present distribution of gold supplies. For these reasons, while admitting the importance of a change in the distribution of gold, I do not believe that the present distribution, or the probable distribution in the near future, constitutes an insuperable obstacle to the return to the gold standard.

I hope it will be evident that I neither contemplate nor desire an immediate return to the gold standard. Many changes must take place before such action can be taken with safety. When a new currency measure is passed we shall be legislating not for a year but, we hope, for a generation or more. It should not be forgotten, however, that the gold standard is a form of discipline which may itself help to restore some of those conditions that enable it to be operated with success. It is a problem in the art of government to decide when the necessary changes have occurred, and how much may be left to the discipline of the standard itself. In deciding the actual gold value to be given to sterling, I hope that the post-war difficulties of the unsheltered industries will not be forgotten by the Treasury.

Organisation of a Commercial Office.

BY

B. G. BALAKRISHNAN, A. C. R. A. (Glas.), D. Com. I. M. C., etc.

In each Mercantile Office, the distribution of work amongst the staff should be very carefully and suitably arranged. In cases where the proprietor or partner is directly in charge of the Office, it should be made a rule that all the letters, whether by post or otherwise, should be opened by him. This will ensure the proprietor being put in touch at first hand with the inward correspondence, so that he can take urgent action where necessary. He should endorse the correspondence to the departments concerned. Another advantage is that the remittances made by cheques, by customers, through the post would be received direct by the proprietor and the possibility of fraud by the subordinate will be minimised, if not avoided. As soon as a cheque is received, the proprietor or the manager should put a stamp upon it "Account payee only," thus preventing the possibility of the cashier misappropriating the cheque to himself. If the cheque is not already crossed, it should be crossed now.

The object of organisation of the staff and the work, should be to ensure promptness in attending to correspondence, compliance with orders etc., and also to secure that there is no possibility of fraud in respect of cash or stores either individually or in collusion with others. All correspondence received each day should as far as possible be replied to, the same day. Where, however, any letter could not be replied to, the same day, for want of detailed particulars etc., it should at least be acknowledged. As far as possible, each subject should be dealt with in a separate letter so that each letter could be handed over to the concerned department and delay avoided.

The letters and telegrams received daily should be registered in an "Inward Correspondence Register," ruled in the following form.

Date	Serial No.	From whom received	Letter No. and date.	Subject (or particulars)	Intials of the Official receiving the letter	How disposed of Outward No. if any.

The object of the register is to have a chronological record of all the correspondence that has been received and disposed of (for future reference) and also at the same time to show at a glance what letters remain un-attended to, so that timely action may be taken.

There must also be an "Outward Correspondence Register", to record particulars of letters and telegrams despatched from the office. Cross-references should be made between the Inward Correspondence Register and Outward Correspondence Register.

OUTWARD CORRESPONDENCE REGISTER.

Date	To whom sent	Particulars of articles (whether letter or parcel etc.,)	Inward No.	Enclosure	Postage (in the case of outside letters.)

Sometimes, a separate postage book is maintained in the following form:—

Date	Letter No.	Postage Amount Rs. a. p.	Remarks whether Registered etc.	Signature of Officer.

A responsible official should check all the letters etc., with the postage book before despatch, to avoid pilferage in postage stamps, by entering fictitious addresses etc. In any system, the cashier should be a different person from the ledger clerk, i. e. the cashier should not have access to the ledger; otherwise, there is the possibility of his meddling with the ledger and making defalcation. The work of the clerks should also be changed at intervals so that any arrears as also mistakes etc., will be brought to light. It is also better to ask each official to go on leave at intervals so that in his absence his defalcation if any will generally be found out by the other person doing the cashiers work.

A statement of account showing the balance standing to the debit or credit of the customers etc., should be made out from the ledger independently by a responsible official and sent out to the customers every month and requesting for acknowledgment. If there had been any misappropriation and wrong accounting, it will be brought to light by this procedure, as the customers will, immediately on receipt of the statement of account, verify the same and inform the firm of the discrepancies, if any.

Governing Factors of Central Bank Policy and A Reply to Critics of a Managed Currency.

A Review

BY

MR. REGINALD McKENNA.

At the ordinary general meeting of the shareholders of the Midland Bank, Ltd., held on the 26th January 1933 at Southern House, Cannon Street, London, E. C. Mr. Reginald McKenna who presided said:

My Lords, ladies and gentlemen, in several previous addresses I have spoken on monetary policy, a subject which has necessarily involved discussion of the functions of the Bank of England. I have done so

because the matter is of immediate concern to the shareholders of a clearing bank; our daily operations are directly influenced by the policy of the central bank, and the whole trade of the country is deeply affected by it. Happily, the bank of England has acquired an unrivalled reputation for complete disinterestedness. It is actuated not by motives of profit but, within the limits of its independence, by its view of what is best in the public interest, and its action has therefore to be judged solely by the test of economic need.

Banks and Cash Reserves

The first effect of central bank action on the joint-stock banks is felt in their cash reserves. These reserves, generally described as bank cash, are the basis on which the jont-stock banks conduct their day-to day operations. Strange as it may appear at first sight, the total amount of bank cash does not depend upon anything the joint-stock banks themselves may do. It is true that the shares of bank cash held by the individual banks are determined by the play of competition between them, but it is entirely beyond their power to vary the sum total, which is controlled by the Bank of England. The influence of the quantity of cash reserves on banking operations can hardly be over-stated, for not only are these reserves the active element in a bank's daily business, but in their totality they govern the aggregate volume of bank deposits.

The primary effects of central bank policy on the joint-stock banks are, however, of less importance than the secondary effects, which result from its influence upon the trade and industry of the community. It is now well recognised that an adequate supply of money is essential to sustained business activity. Nothing in monetary practice is more certain than that contraction of the volume of money, or even failure to secure an adequate increase, tends both directly and indirectly to put a brake upon business of every kind, and to produce the very troubles—unemployment, unremunerative commodity prices, unbalanced budgets and general depression—which have been apparent in almost every country of the world in the past four years. With expanding population and production we need some expansion in the supply of money, or it will inevitably follow that consumption will not keep pace with production. There may in any circumstances be temporary mal-adjustment between production and consumption of individual commodities; but if the supply of money is adequate the price level of all commodities taken together will be kept approximately stable, and general consumption will be maintained. It follows, then, that the policy of the Bank of England is of the utmost concern to everyone, for no one escapes the effects of general depression and not one of us fails to benefit from sustained prosperity.

Governing Factors in Central Bank Policy

The instruments through which the Bank of England makes its policy effective are the quantity of money and the rates charged for its use. The quantity of money, that is primarily the total of the deposits in the banks—for currency plays only a minor part

in the mass of our daily payments—is ultimately governed under our banking system by the action of the Bank of England in buying or selling gold or securities, in lending freely or causing its loans to be paid off ; in other words, the quantity of money is determined by the Bank of England's daily operations. What, then guides the Bank of England in those operations? Within definable limits its action is prompted by its own independent judgment ; that is to say, the Bank of England on its own responsibility acts from day to day as it thinks proper. But such freedom in a matter vitally affecting the whole community should obviously be subject to limitations set by higher authority, and for the reasons I have given it becomes of great importance to the business community no less than to the joint-stock banks to know whether such limitations exist and, if so, what they are.

So long as we were on the gold standard the freedom of policy of the Bank of England was limited by the requirement that it should maintain effective parity at the statutory figure between sterling and gold, but this restriction was removed when the Gold Standard (Amendment) Act was passed, in September, 1931. The title of the Act is euphemistic—in effect, it did not amend, it entirely suspended, the gold standard, and along with it the principal limitation on the Bank of England's freedom of action. Even while operating on the gold standard the Bank of England had a considerable field for the exercise of independent judgment, but with the removal of the statutory obligation its powers over the quantity of money were so wide, whether in the direction of increase or decrease, as to be for practical purposes unrestricted.

Bank of England's Policy

It therefore became urgent that the Bank of England should be given some definite guidance as to its future policy, and obviously the Government alone could have the necessary power and authority to instruct the Bank. For some time after our departure from gold, official policy in monetary affairs was uncertain, though expressed at first in definite acts of deflation. Later an expansion of the supply of money was undertaken, with admirable results, though it still remained doubtful how far this represented policy with a view to trade, and how far it was to be regarded as an incident of the needs of public finance. Last July, however, at the conclusion of the World Conference, a statement of the greatest importance was issued — I refer to the declaration of monetary policy signed by representatives of almost every part of the Empire, including the Chancellor of the Exchequer. This statement cleared up all doubts, and formally adopted the principle of a managed currency with a view to maintaining a stable price level.

The declaration noted that the persistent adherence of the United Kingdom to the policy of cheap and plentiful money had been increasingly effective in raising wholesale commodity prices, the objective towards which the policy of the British Commonwealth had been directed. It was not considered practicable to state in precise terms the ultimate price level to be aimed at, but any

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price level would be satisfactory which restored the normal activity of industry and employment, ensured an economic return to the producers of primary commodities, and harmonised the burden of debts and other fixed charges with economic capacity. The declaration of the Ottawa Conference was quoted to the effect that the ultimate aim of monetary policy must be the restoration of a satisfactory international monetary standard; and the view was reaffirmed that the final objective should be the re-establishment of an international gold standard, reformed in such manner that stability of exchange rates could be reconciled with a reasonable measure of stability in world prices.

This declaration may well prove to be the most important profession of faith that the world has yet had on the subject of monetary policy. It accords with an immense advance in public appreciation of the conditions of modern business life. The price level of commodities in daily use is recognised as the measure of stability in the value of money, and the maintenance of such stability as the proper objective of monetary policy. Gold, it must be noted, is by no means to be permanently discarded, but it is not to be reinstated as the monetary standard until adequate safeguards are provided against the risk of its becoming once again the uncontrolled master. Gold will still serve its purpose in the machinery of international trade and finance, but it will be a controlled gold with a more or less stable value measured in commodities. The quantity and price of money or credit are the instruments of control, which are to be so used as to maintain at one and the same time a stable price level and a stable value for gold.

Steady Progress of Trade.

The advance here recorded in our monetary ideas is very remarkable, and not less remarkable is the advance in our practice. The Government policy of cheap and abundant money, primarily embarked upon for the special object of converting national debts to lower interest rates, has been in force consistently for nearly two years. The success of the policy in maintaining the general average of prices at a level which renders production profitable is to-day beyond question. World trade may still be disorganised, the exchanges chaotic, international dealings hampered by prohibitive tariffs, quotas and other restrictions; yet, notwithstanding all these obstacles, often described as insuperable, the trade of this country by universal acknowledgment has for many months been making steady and gratifying progress.

My theme as a banker is monetary policy, but it must not be supposed that I attribute the whole of this recovery to monetary policy alone. No one can overlook the powerful contribution of other factors. First and foremost has been the growing sense of security, both in this country and throughout the Empire. The Ottawa agreements, and to a less extent the trade agreements with a number of foreign countries, have contributed to greater stability through the assurance and expansion of markets. The work of the Tariff Commission, again, has

contributed largely to the restoration of healthy conditions in many of our home industries, while there has been a remarkable advance in industrial efficiency. Finally—though my list is by no means exhaustive—not least among the factors in recovery has been the re-establishment abroad of faith in this country's capacity to weather the storm of adversity and to fulfil her just obligations—a faith which is once again making the pound sterling the principal currency in world trade.

The Results of Monetary Expansion.

Each of these elements has contributed its share to the recovery so far achieved, but they could have done little to bring about positive improvement had they not been accompanied by a steadily expansive monetary policy. The facts of business show clearly the effect of abundant and cheap money, though the steps by which it operates are sometimes a little obscure. An expansive monetary policy becomes effective through purchases, first by the Bank of England, and, later, on a magnified scale, by the joint stock banks. These purchases, mainly or wholly of securities, create a supply of entirely new money, which passes into the hands of the sellers, who themselves become buyers of other securities or use the money in trade. A new demand is thus set up right through the whole range of securities, and the transactions give rise to profits which sooner or later will be invested or spent. The investment or spending of profits provokes a new demand for the products of industry, and gradually the effects of the monetary expansion become translated into an expansion of trading activities. Meanwhile, the abundance of short-term money and the higher prices of securities encourage conversion of debts to lower interest rates, while expanding trade, both directly and indirectly, through its strengthening of confidence, stimulates further capital development. Thus the flow of business runs more freely through a whole series of channels. Obviously it takes time before the new money finds its way into industry, but sooner or later, under the banking and trading conditions of this country, it must do so. The supply of an adequate quantity of money is now seen to be as certain in restoring trade and employment as the curtailment of the required supply is certain to restrict them.

These, then, are the first fruits of our new-found independence in monetary affairs, following the removal of statutory restrictions upon the central bank and their replacement by wisely conceived and clearly enunciated Government policy. It must not be overlooked, however, that the new policy of regulating the supply of money in such a way as to maintain the price level imposes a far more difficult task upon the central bank than mere conformity to the obligation to keep the pound sterling at a fixed gold value. A pure managed currency calls for a much higher degree of knowledge and judgment in action ; and even if these qualities were found in full measure the task of the central bank would become impossible if our monetary system were not as highly organised as in fact it is, or if the British people were addicted to panic and hoarding.

Objections to Monetary Management.

No Government or central bank, however, can move very far in advance of public opinion, and it is fortunate, therefore, that the conception of monetary stability in relation to the price level is now widely accepted by the general public. The trading and industrial community in particular no longer regard fixity of exchange rates as the true test of stability. They recognise with conviction that, while external stability is very desirable and is a proper objective of financial policy, it is secondary in importance to stability of purchasing power over the commodities we use and consume, taken in their whole range. We must not suppose, however, that the world is of one mind upon this subject. It is true that President Roosevelt's recent message to Congress lays down principles which are quite consistent with the objectives of the Imperial declaration, but, generally speaking, outside the British Empire the conception of a managed currency finds little acceptance; and even among ourselves there is still an important body of opinion which holds that the effort to maintain stability of the internal price level by means of monetary policy is doomed to ultimate failure.

Let me recall some of the objections commonly advanced. We are told, for instance, with a fallacious reference to history, that well-estabilished economic law is against it. Price, it is declared, is governed by supply and demand. Artificial manipulation of money is an effort to interfere with the inexorable working of economic law and must end in disaster. Language of this kind sounds alarming, but in truth it does not mean very much. No one disputes that price is governed by supply and demand, but the enunciation of this so-called law amounts to no more than saying that two and two make four. The law is of universal application, simply because economists give the name "price" to the result of the action of supply and demand—not to what the seller would like to get or the buyer to pay, but to what in the haggle between the two is ultimately agreed upon. Our present concern is not with economic truisms, but the factors that go to make up demand and supply. One of the factors of demand, indeed in some respects the most important as the most subject to rapid variation, is the quantity of money available for the purchase of commodities, and it is entirely proper to ask consideration of the principle which should guide the central bank in determining what the quantity of money should be.

Facts Ignored by Critics.

Again, the critics of the policy of exercising control over the supply of money in accordance with trade requirements stigmatise the policy as artificial tampering with the value of the currency. They recognise that operations of the Bank of England are responsible for variation in the total quantity of money, and they admit that the quantity of money is a governing factor in the price level; but so long as the operations are based upon the more or less accidental changes in the gold stock they regard them as natural, whereas such operations become artificial if deliberately directed with reference to the price level. It appears to

me that the critics really mean no more by the term artificial than that the conception of reasoned control of the price level is unfamiliar to them. When they become familiar with action by the Bank of England with a view to keeping the price level stable they will call it natural.

There is similar shrinking from recognition of the fact that inflation is sometimes desirable. The word inflation is in constant use as a term of reproach; but just as deflation may be good or bad according to the conditions at the time it is put into operation, so also with inflation. Not a voice has been heard in protest against inflation we have experienced in the past two years. The fact that inflation has been undertaken quite deliberately on a large scale is simply ignored, and the fact that this inflation has been the most important element in our trade recovery receives no grateful recognition. The public are not in the habit of observing variations in the quantity of money as closely as variations in the Bank rate, but the figures of bank deposits show the great increase since February, 1932, of nearly £300 millions. So much additional purchasing power has been put at the disposal of the public by the action of the Bank of England in buying first securities and later gold. We have seen a revival of business and a return to employment, accompanied by a comparatively slight rise in the price level; but as the recovery has not been attended by any of the dreaded horrors of uncontrolled inflation, no one recognises it for the deliberate inflation which it really is.

Irrelevant Warnings.

Much of the scepticism regarding the practicability of wisely managing a currency with no fixed gold value is due to false comparison with experiences of other countries. We are warned, for instance, of the perils of inflation by reminders of what happened to various currencies in Central Europe after the war, whereas, in fact the warning is quite irrelevant, for the fate of those currencies was the result of irresistible pressure on Governments to spend limitless amounts without regard to taxable capacity or true borrowing resources. We are told, again, that the partial disappointment in America of great hopes based largely on freedom of monetary management is a heaven-sent warning to this country to return with the least possible delay to the only sound basis, gold. Here again the warning, which grossly underrates the improvement actually achieved in America, is irrelevant. President Roosevelt has to battle against difficulties which our authorities are happily spared. He is called upon to bring about business recovery at the same time as he undertakes great social reforms which elsewhere have taken generations to achieve; and he is required to do so largely through the instrumentality of an unresponsive banking system, and in face of the problems created by inveterate habits of speculation and occasional proneness to panic and hoarding. The position has no parallel in this country.

Immediate Future.

What, then, should be our monetary policy for the immediate furure? Briefly, it

should be to go on as we are going with the consistent maintenance of cheap and abundant money supplies. For the time being there is no need to concern ourselves with any metallic basis for our currency; the international situation seems unripe for the restoration of a universal monetary basis, and the gain from universality is the only consideration which should be allowed to tempt us back to a metallic standard. Before the war the gold standard was really a sterling standard, but after the war other countries, not equally equipped by economic conditions and national characteristics for the task of monetary management come to play a leading part in controlling the gold stock. As a result, gold has risen steadily in value, and country after country has been forced off the gold standard.

Our own standard, based on the general commodity price level, is the one best suited to the needs of the great masses of population throughout the world, for not only is the pound sterling readily acceptable every where as a means of payment, but it is now managed with a view to ensuring that debtors shall be called upon to pay no more in value than they have borrowed. It is true that the restoration of exchange stability is much to be desired, but if the price to be paid for this convenience is too high we must be content to defer it. Meanwhile, until the world has learned how to secure exchange stability without jeopardy to stability of purchasing power, our inflexible task must be to demonstrate that wise management of a monetary unit with no fixed attachment to gold is both practicable and in its results highly beneficial.

The Balance Sheet.

Before I pass to consideration of our report and balance-sheet the painful duty falls to me of recording the death some months ago of an old and valued colleague, Sir Edward Stern, I recall our loss with deep sorrow, a sorrow which is shared by the whole board. The association of Sir Edward Stern's name with our instituion goes far back into the history, of the London Joint Stock Bank, and carries with it a record of long and higly appreciated service. By the appointment to the board of his cousin and partner, Sir Albert Stern, the association of the name with this bank is happily maintained. In addition to this appointment we have been fortunate in being able to welcome during the year Mr. Dugdale and Sir Walter Preston to seats on our board.

The balance-sbeet, which has been before you for some days shows few important changes since a year ago. As regards deposits, the year has been one of far greater stability, at a higher general level, than was experienced in 1932; in that year the difference between the highest and lowest figures recorded in our weekly statements was almost £100 millions; in 1933 it was little more than £30 millions. The balance-sheet figure for deposits shows an insignificant decline of £5½ millions on the year, a substantial fall in deposit account balances having been largely off-set by an increase in current accounts, indicating a steady movement of customers' accumulated funds into investment.

In using the funds placed with us it has not been easy, in the circumstances of the time, to maintain a due balance between the utmost security for depositors and a reasonable return on our assets. When, however, choice has to be made between the two desiderata, there can be only one decision; we must at all times have first regard to safety and liquidity.

Decline in Advances.

Advances have again declined over the past year, though there are signs that the downward trend may have been arrested. The demands for larger accon.modation to finance improving trade have been slightly more than counterbalanced by voluntary repayments out of new long-term resources or out of the proceeds of sales of investments. Our regular analysis of advances shows that the principle of diversification is fully maintained, and there can be no doubt that, as a consequence partly of reviving trade and partly of the large provisions made against possible losses, the banking quality of our advances has considerably improved, as indeed, was our experience last year.

I am sorry to see that, notwithstanding my efforts a year ago to explain our exact procedure in respect of bad and doubtful debts, some misconception still appears to exist among financial journalists. I will not weary you with a repetition of my statement beyond saying again that the provisions made before arriving at our net profit were fully sufficient to cover our bad debts, and any increase on the year in the total of outstanding debts which, on a conservative judgment, could be regarded as doubtful.

Along with the small decline in advances over the year has gone a much heavier fall in bills, wholly attributable to a reduction in our holding of Treasury bills. It is probable that the aggregate of Treasury bills available for purchase by banks and other financial institutions is lower than a year ago, but the decline in our holding is the result also of deliberate policy, for the yield on bills had become definitely unremunerative, and even now is only about one per cent. per annum. The funds thus diverted, partly from outside causes and partly on our own initiat've, have been utilised in adding to our holding of investments, which are higher in total than in any previous balance-sheet. They consist almost entirely of British Government securities, more than half of them with relatively early maturity dates; all are valued at or below market prices; and our holding is designed to secure the utmost protection against the possibility of loss through depreciation if interest rates should show any marked upward tendency. The outstanding feature of the balance-sheet is its demonstration of great liquidity and of our ability to meet any fresh demands that may be made upon us to finance reviving trade.

The Profit and Loss Account.

Our profit and loss account is gratifying. The net profit for the year, amounting to £2,267,000, is nearly £250,000 larger than for 1932, though still about £400,000 below the figure for 1929, the year preceding the slump. Two principal factors have

enabled us to secure this recovery in face of the conditions of the times, more especially the low level of money rates. First, constant watchfulness for all possible means of economy in miscellaneous items of administrative costs has reduced our overhead charges, while at the same time allowing us to go part of the way to restoring the increments in the scale of staff salaries in force before the slump. And, secondly, the average amount of deposits over the year has been considerably higher than ever before, while much of the additional money placed with us has been deposited at relatively low rates.

Above all, however, this welcome recovery in our net earnings is attributable to skilful and judicious management, supported by efficient and loyal service in the detailed operations of the bank; and I should like here and now to say how much we as shareholders owe to the business genius and unfailing judgment of our managing director, Mr. Hyde, and the able and ready co-operation of the general managers and their assistants. To this tribute, moreover, I would add a word of special appreciation of the services of our branch managers and their staffs, whose task we recognise as being by no means easy in these difficult times. To revert to the profit and loss account, we propose to use the whole of the addition to our net profit in strengthening our position, by applying £550,000, as against £300.000 a year ago, to reserve for future contingencies. Our recommendation is that the rate of dividend for the past half-year should again be 8 per cent., less income tax, maintaining the return for the whole year at 16 per cent., lees tax.

The Bank's Earning Capacity.

Before I leave the subject it is, I think, desirable to observe that the earning capacity of a bank is extremely difficult to estimate, and that the task of ensuring an even and adequate return to shareholders on their initial investment—which, by the way, is far larger than the mere figure of paid-up capital —is one of great complexity. There is not, and cannot be, any accurate and reliable system of costing such as can be applied to a trading or industrial company, for we do not buy and sell, nor do we render services for a settled scale of fees. Our outgoings are almost entirely what a trader or industrialist would describe as "overhead costs."

Let me give you a few facts on this point It is estimated that last year we dealt with approximately 200 millions of cheques and similar articles drawn on or paid into customers' account. The total of debits to customers' current accounts represented alone a sum of nearly £10,000 millions. These figures give some impression of the magnitude of services whose value cannot be experessed in pounds, shillings, and pence. Again, the bank performs innumerable services—for example, the collection of coupons, purchase and sale of investments, safe custody of documents; and so on—many of which are rendered free of charge, and on all of which it is extremely difficult or impossible to put a price. I can best give a rough indication of their aggregate cost by quoting the figure for our staff charges. which last year exceeded £5

millions. That sum, along with all other costs, and with provisions against possible losses on advances and in other ways, has to be covered in the main by the difference between what we earn on our assets and what we allow on credit balances placed with us.

Rates on Advances.

The very large volume of overhead charges show how erroneous it is to draw any inferences from direct comparisons between the rates the banks are thought to allow on credit balances and the rates they are thought to charge on advances. In particular, the London deposit rate, commonly known as "L. D. R.," is a conspicuously false guide, for that rate applies chiefly in the London area, whereas the average interest allowance on money in the provinces is considerably higher. The London deposit rate, in fact, provides no guidance at all to the volume of our outgoings on account of interest or the extent of their variations from time to time. Again, it is far from the truth to regard the rates on bank advances as representative of the rates earned on all the funds placed with the bank. Advances now amount to only two-fifths of our deposits, and the rest of the money placed with us can be employed only in ways which yield on the average far lower returns. This fact has particular force at the present time, when the proportion of advances is unusually low; but it applies in only slightly less degree at all times, for the bank must constantly maintain a large proportion of assets which, while less profitable than advances, have the virtue of greater liquidity.

I have devoted some time to these matters because of misconceptions, unfortunatuly common, as to the possibilities regarding "cheap money" and the precise manner in which it contributes to trade recovery. For the reasons I have mentioned —chiefly the very large volume of inelastic overhead costs—the margin between rates allowed on credit balances and those charged on advances must inevitably tend to be wider when rates in the money market are low. We endeavour to secure, by economies in all possible directions, that the margin shall not grow unduly, and competition between the banks ensures that it shall not be wider than is necessary having regard to the maintenance of a just balance in the relative positions of the public, the shareholders and the staff. I need only observe, on this last point, that a further all-round reduction of 1 per cent. in the rates on advances, if existing rates on deposits were maintained, would entail either a one third cut in salaries or almost complete suspension of dividend payments.

Indications of Improvement.

Happily for all of us, whether as customers of the bank or as shareholders or as members of the staff, it is now possible to point to definite evidence of recovery in economic conditions, not only in this country, but in some degree throughout the world. Indications of improvement, more especially in the British position, are numerous in the experience of this bank and of its affiliated banks, and I should like at this point to congratulate the directors, management and staff of the Belfast, Clydesdale and North of Scotland Banks on their continued maintenance of the highest standard of security and progress in service. It would be falsely optimistic, after the unprecedented strains and shocks suffered by the whole economic structure since 1929, to expect immediate return to full prosperity; we have still far to go before that most desirable condition is restored. But the recent trend has been unmistakably and steadily upward, and we may feel some assurance that the worst of our troubles have now been surmounted.

Agricultural Income-tax.

BY

K. S. SRIKANTAN, M. A., F. R. Econ. S. (London).

It is really unfortunate that no serious thought is bestowed on the important suggestion of levying an agricultural income-tax in place of land revenue which is perhaps the most maligned of all taxes to-day. I have been wondering why no one of our representatives in the Legislative Councils has come forward with a plea for the abolition of land revenue and the substitution of an agricultural income-tax for it. That the suggestion is not preposterous is clear from the fact that the agitation for its reduction has become well-nigh universal. In fact, it varies from 33 1/3 per cent to 60 or even 65 per cent. This is certainly not far from a cry for its entire abolition. It is, therefore, time that one examined the possibility of a suitable substitute for land revenue. That land revenue is an unjust and inequitous tax is admitted on all hands. In these days of democracy, when progressive taxation is the rule everywhere, it is the peculiar misfortune of this country to have a tax which is most regressive. It affects all people irrespective of their ability to contribute. It is really strange that in spite of the constant talks on the platforms about the welfare of the peasants, he should be subjected to maximum possible oppression to-day. To the already burdensome land tax, the customs duties have become an additional burden upon them. With a view to arrive at the incidence of the customs duties, the Taxation Enquiry Committee instituted a comparison between the years 1913-14 and 1924-25 They conclude: "So far as these figures go, they tend to indicate a certain amount of shifting of the burden from the richer class to the general population." It is, therefore, clear that the immediate problem is to relieve the ryot of at least this inequitable tax. The only reason for the silence of most of our representatives regarding this matter, I think, is due to the fear that the abolition of land revenue would create a wide gap in the budget. This is an erroneous assumption. Its abolition will not cause any deficit, if in its place, a proper scheme of agricultural income-tax is introduced.

The cry for agricultural income-tax itself is very old. Productive to the State, equitable to society and convenient to individuals, income-tax, is the most popular of taxes to-day. In fact the omission of agricultural income for the purpose of income-tax was a sheer accident. When the first income-tax was introduced in 1860 by James Wilson, he explained his position clearly by saying, "I will hold him to be exempt from any special charge upon his land, but to be liable to any general tax that applies to all others." Unfortunately the history of income tax in India was one of continuous trial and error. The Taxation Enquiry Committee after having practically voted in favour of an agricultural income-tax, from the point of view of history and equity, overthrew the suggestion on the

ground that it would not be productive. Their estimate, I should hasten to point out, was a gross miscalculation. While the inclusion of agricultural incomes would bring a large number of incomes which are not now included under income-tax, it would also enhance the rate at which the income-tax on non-agricultural incomes is now collected. At the same time, it would free a large number of small-scale holders of four and five acres of land from any taxation. Prof. K. T. Shah estimates the income from an agricultural income-tax of moderate rates, to come to about Rs. 9½ crores. No period is more opportune to consider the possibility of substituting for land revenue an agricultural income-tax than this. It is not only practicable and productive but is an immediate necessity.

I should not, however, omit to observe in this connection, that the suggestion of the Taxation Enquiry Committee to levy an agricultural income-tax (if it were possible) in addition to the land revenue is wrong. In my opinion that is positively harmful to the interests of the landholders. Let us, for example, take the case of two men getting an income of Rs. 3,000, one from agriculture and the other from a non-agricultural occupation. If the income is from the latter source, the maximum tax the owner of this kind of income would have to pay comes to Rs. 93-12, calculating the income-tax at the rate of 6 pies in the rupee. If, on the other hand, he were an agriculturist, to get an income of Rs. 3,000, he should at least have 60 acres of land at the present price of paddy. The land revenue per acre for such fertile lands is about Rs. 10. The landlord, has, therefore, to pay Rs. 600 on an income for which the non-agriculturist pays only Rs. 93–12. The land revenue in this case is therefore more than six times the income-tax. It is certainly unfortunate that the Taxation Enquiry Committee and the Simon Commission should have recommended the levy of an income-tax on the agriculturist, besides keeping the land tax, not realising this glaring injustice. An appeal is made in this letter to redress this inequality between landowners and other classes and between the landowners themselves by scrapping up this inequitable tax and substituting it by a well-planned income-tax.

NOTICE.

For want of space in this issue the promised Answers to the Accountancy and Auditing—Paper I, of the Auditor's Certificate Rules 1932 have not been published. They would, however, appear in the next issue.

Editor.

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